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## The Arkansas Decade: We Mean Business!, 1998

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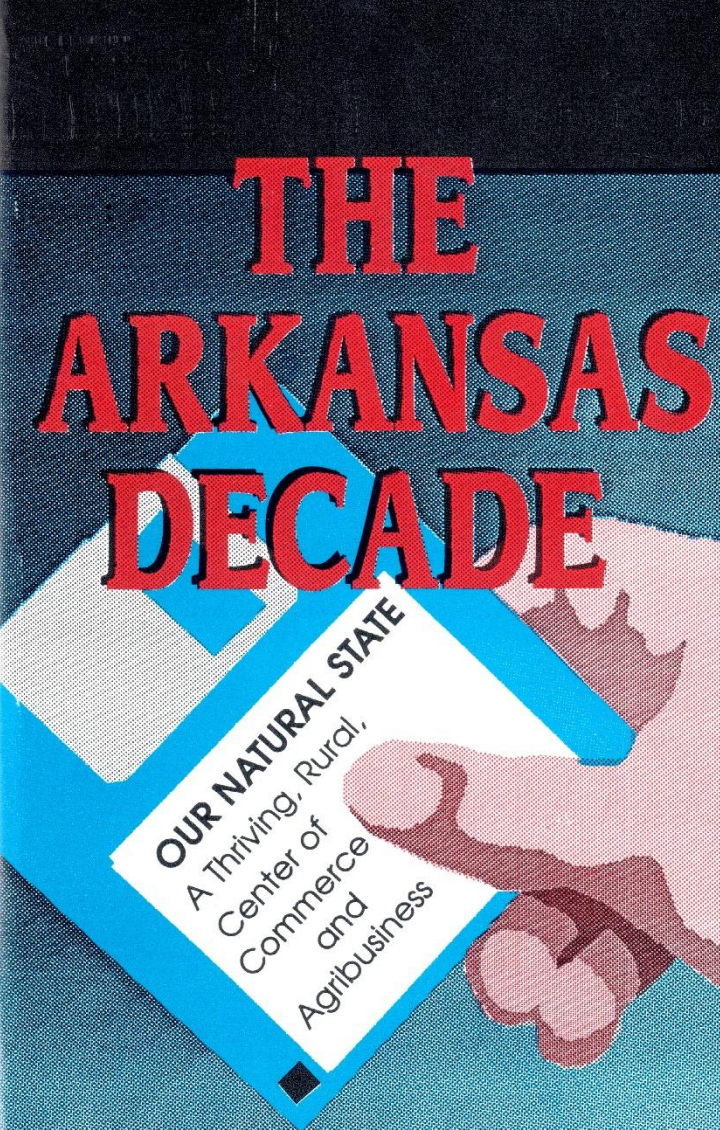
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# THE ARKANSAS DECADE

A stylized illustration of a hand holding a computer floppy disk. The disk is blue and white, with a label that reads 'OUR NATURAL STATE' and 'A Thriving, Rural, Center of Commerce and Agribusiness'. The background is a dark blue gradient.

*We mean business!*

by

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of

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# **THE ARKANSAS DECADE**

## **We Mean Business**

by  
D. P. Diffine, Ph.D.

### **INTRODUCTION -- A Mid-South Hub**

Arkansas is truly an ideal place in our great land. Situated in the heartland and at the buckle of the sunbelt, Arkansas is benefitting from the northeast-to-southwest shift of population in the United States. The migration from frostbelt to sunbelt, and the economic emergence of the southern tier of states, have thrust the Natural State into the middle of today's action.

An impressive 50 percent of the U.S. population is within a 550 mile radius of the borders of Arkansas. More than 1,000,000 people live within a one-hour's drive of our state Capitol. Little Rock, the state's capital city and intermodal hub of its air, rail, highway and waterway networks, lies about halfway between Chicago and Houston and is somewhat east of center between Los Angeles and New York. Throughout the decade of the 1990s, Arkansas significantly outpaced the nation and was among the Top Ten states nationally for percentage increases in output, employment and personal income.

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For additional information and annotated reference sources, the reader is referred to the author's 250 page book, **ARKANSAS AND THE U.S. ECONOMY IN THE LATE 20th CENTURY**, first edition, 1996.

In its most recent Annual Manufacturing Supplement, *Arkansas Business*, our state's excellent financial weekly newspaper, provided the following business highlights:

Principal industries in Arkansas are manufacturing, agriculture, forestry and tourism. Principal manufactured goods are chemicals, food products, lumber, paper, electric motors, furniture, home appliances, auto components, transformers, apparel, fertilizers, machinery, petroleum products, airplane parts, and steel.

There are 208 Fortune 500 firms with operations in Arkansas. We are ahead of 24 other states in the number of Fortune 500 companies located in Arkansas. Arkansas is home to five Fortune 500 firms, including ALLTEL Corporation, Beverly Enterprises, Inc., Dillard Department Stores, Inc., Tyson Foods, Inc., and Wal-Mart Stores, Inc. Arkansas has 16 branches or subsidiaries of the World's 100 Best-Managed Companies ranked by Industry Week magazine.

Arkansas is a thriving rural center of commerce and agribusiness. True, in good times, the Arkansas economy may not always surge at the rate of the U.S. economy. However, we usually experience milder recessions than the rest of the nation.

## **I. Our Manufacturing Forte**

Many people believe that the manufacturing sector is becoming less important to the Arkansas economy. Actually, just the opposite is true. Manufacturing is very important to Arkansas as a generator of jobs and income. Today, Arkansas has a higher percentage of workers employed in manufacturing than the national average -- 21.2 percent in Arkansas compared to 15.8 percent nationally.

Arkansas has led the nation in manufacturing job growth in the past 25 years. The total employment in manufacturing in Arkansas has increased more than 8.9 percent since 1990, while the national manufacturing employment has decreased. Arkansas' manufacturing employment growth was ranked first among 16 southern states. Only nine others had increases in manufacturing employment during this period.

The Natural State counts manufacturing as one of its major economic factors. Each newcomer is accompanied by certain basic needs for housing, services, and retail establishments, to name just three. Over the past several years, major plant openings and expansions have occurred. So, business is good in Arkansas, and it will get better as new jobs create new needs, which in turn create more new jobs. Such are the makings of real opportunities.

Arkansas' manufacturing base is considerably diverse in nature. Arkansas manufacturers produce everything from



fishing lures and exercise equipment to electric motors and jet aircraft. They provide quality products that are competitive worldwide. Some of Arkansas' major manufacturing companies include Tyson Foods, ConAgra, Georgia-Pacific, Emerson, International Paper, American Greetings, Riceland Foods, and Whirlpool.

Does that make Arkansas more or less vulnerable to a recession? Regarding manufacturing intensity, we are ninth in nation. That may seem to make us more vulnerable to swings in the business cycle. However, we have diversified into numerous recession-resistant industries. They tend to be less vulnerable to the business cycle.

Arkansas' excellent performance in the 1990s (jobs, output and personal income gains, etc.) proves that. The average hourly earnings in manufacturing have grown at a higher rate in Arkansas than they have nationally. The percent increase in Arkansas from 1990 to 1995 was 18.1 percent, while the national increase was 14 percent. Our largest manufacturing employer is in food processing, the paragon of recession-resistant industries.

Arkansas has continued to move away from an agricultural-based economy. Since 1990, the state has seen a 15.5 percent increase in growth of nonagricultural employment, far above the national total of 6.6 percent. In addition, Arkansas ranked first among surrounding states.

During the six-year period from 1990 through 1996, corporate headquarters and

back-office facilities, together with manufacturing and distribution companies, have announced the location of 304 new facilities in Arkansas with projected investments of \$1,316,171,554. These facilities are expected to employ 18,585 people. During the same period, established Arkansas industries have announced 1,976 expansions, with a projected investment of \$5.16 billion and the creation of 47,250 jobs.

Georgia-Pacific was one of the 412 companies which expanded existing facilities in Arkansas and Frito-Lay was among the 60 new companies to announce facilities here in 1996. That compares to 280 expanded and 47 new facilities in the state in 1995.

Over half the employees in manufacturing in Arkansas live in communities with a population of less than 2,500. The personal income derived from manufacturing has a great impact. According to the Arkansas State Chamber, for every 100 new manufacturing jobs created in a community, 64 non-manufacturing jobs are created: 45 jobs in wholesale and retail, entertainment and recreation; 7 jobs in transportation; 3 in finance, insurance and real estate; 3 in repairs and services; 3 in construction; and 3 in public administration.

With these payrolls, communities face better economic times. Local and state tax bases grow, services are expanded and there are more educational opportunities. The impact of manufacturing jobs in Arkansas is highly significant when total earnings are examined. All manufacturing employees earn about \$6 billion; \$4 billion went into

small towns, as 60 percent of our manufacturing workers come from small towns. It's fair to assume that without these paychecks, many small towns would languish and lose population.

Arkansas' "Free Port Law" applies to finished inventories maintained by manufacturers located within the state and to goods stored in warehouses in transit through Arkansas to destinations outside the state. This law provides that all goods manufactured within the state and stored for shipment outside of Arkansas shall not be assessed for taxation in the State. Also, covered in this tax exemption are goods which are moving through the state and which may be stored in a warehouse, dock, etc., in transit to a destination outside of Arkansas.

## II. Demographic Mix

Arkansas is a desirable place to live and work amid natural beauty free from urban pressures. Most future jobs in our state will come from small business, light manufacturing, food processing, tourism, technology, services. Of course, the most significant customer for small business is big business. So, Arkansas will continue to attract some capital intensive firms requiring greater worker skill levels. The newly reconstituted Arkansas Economic Development Commission (AEDC) is committed to achieving that mandate.

On balance, our state's relatively small population, approximately 2.4 million, does put us at some disadvantage in trying to attract the type of businesses which produces end products for consumers. Transportation cost-wise, these businesses would prefer demographically, and everything else being equal, to be in or near larger markets. Consequently, our forte remains somewhat with the more natural fit, the basic commodities produced from the land. Forestry and tourism also comprise a substantial portion of the Arkansas economy.

According to *Arkansas Business*, the following is a breakdown of Arkansas' Gross State Product:

Manufacturing	15.0%
Finance, Insurance and Real Estate	14.1%
Services	13.5%
Retail Trade	9.5%



Transportation, Communication, & Public Utilities	11.3%
Government	10.4%
Agriculture, Forestry, and Fisheries	5.8%
Wholesale Trade	5.2%
Construction	4.2%
Mining	1.0%

Our employment distribution is as follows:

Manufacturing	21.2%
Wholesale and Retail Trade	19.1%
Services	18.8%
Government	15.0%
Self-employed, Unpaid & Domestics	10.1%
Transportation & Public Utilities	5.0%
Agriculture	3.9%
Finance, Insurance, & Real Estate	3.5%
Construction	3.4%
Mining	0.3%

The composite Arkansan appreciates the opportunity to have a good job and to keep it. The Arkansas worker wants to help his company grow, and quality-consciousness is a way of life. According to companies with multi-state operations, the Arkansan will have less absenteeism and more productivity than his counterparts almost anywhere else.

"If I could rest anywhere, it would be in Arkansas," once declared Davy Crockett. The number of Arkansans 65 years of age or older represents 14.9 percent of the state's total population. Only four other states have a greater percentage of senior citizens.

### III. We Are The World

What a colorful history this state has. The four blue stars on the Arkansas flag represent the Civil War Confederacy, along with the three countries of which she has been a part -- France, Spain and the United States. The diamond in the flag stands for the Arkansas' famous diamond mine.

Among the nation's 48 contiguous states, Arkansas' business climate usually ranks high in the South Central region and nationally in annual studies conducted by Grant Thornton Accountants and the Management Consultants, an international firm of Certified Public Accountants.

Arkansas has continued to internationalize its economy. The number of exporting companies currently totals 716. The state supports these efforts through its four international offices and the Little Rock-based staff. With exports and foreign investments accounting for 15 percent of the Gross State Product, and over 60,000 jobs for Arkansas, some \$6 billion in Arkansas products are exported annually to 142 countries.

Industrial machinery, transportation equipment, processed food, and chemicals represent Arkansas' largest exporting sectors. These four industrial categories account for 63 percent of the state's industrial exports. It is also obvious that our commercial links to the rest of the planet are something we cannot ignore (10 percent of total employment). Any guesses as to who is

our number one trading partner? Canada buys 30 percent of Arkansas' exports.

The Arkansas Economic Development Commission (AEDC) promotes international trade by offering services to interested buyers and sellers of Arkansas products. It offers marketing assistance to Arkansas exporters, which helps them make international contacts to locate potential agents, distributors, and buyers. The agency also assists overseas clients in locating reliable and experienced Arkansas exporters that can provide a wide range of products, services, and technologies.

The Trade and International Investments Division of the AEDC, in conjunction with the Arkansas Development Finance Authority, offers trade finance assistance to Arkansas exporters. Members of the staff have been trained in the Export-Import Bank of the United States and Small Business Administration programs and are available to advise companies on how these programs can be used as both financial and marketing tools.

AEDC's international offices in Belgium, Japan, Mexico, and Malaysia assist Arkansas companies in exporting their products and services by arranging personalized meetings with potential distributors, sales representatives, or end users in the countries targeted for AEDC's export promotion efforts.

Assistance to overseas inquiries for joint venture and licensing opportunities is also provided. Each overseas inquiry is

evaluated by a professional trade specialist and recorded on an extensive computerized data system. Arkansas firms are matched with specific inquiries to fulfill project needs.

More and more Arkansas firms are providing services and technologies on an international scale. Thanks to a large group of dedicated telecommunications professionals, Arkansas has sophisticated network facilities that offer the full range of digital transmission services.

Every year, more companies discover the natural benefits of locating in Arkansas. Overseas companies with significant direct investments have tripled in the last 20 years. At present, companies in nineteen countries have investments in more than 100 manufacturing and non-manufacturing concerns in Arkansas.

In addition to having a central location in North America, Arkansas provides a business climate that is conducive to long-term growth and profitability. The Arkansas General Assembly passed some of the most competitive incentives available.





#### **IV. Tax Base and Income**

In Arkansas, industry receives a handshake, not a shakedown. From a corporate and individual standpoint, combined taxes in Arkansas are lower than two thirds of the 50 states. Indeed, Arkansas has the third lowest overall per capita tax burden of any state in the nation. Companies enjoy comparatively low tax obligations through a variety of incentives, exemptions, credits, and refunds. State and local governments have also aided the era of industrialization by providing incentives on the one hand, while exercising tight fiscal controls on the other hand.

Act 529, the state's 1985 investment tax credit of 7 percent for manufacturers who invest more than \$5 million -- this has contributed significantly to the creation of tens of thousands of jobs and billions of dollars in additional spending for plant and equipment. Did this tax credit cost? No, it paid for itself many times over.

An impressive economic incentive program has been provided by the Legislature. As a result, the entire state of Arkansas is now one large enterprise zone with its respective tax credits incentive. Local municipalities, with the help of voters, will now be able to finance their respective campaigns to build the brick and mortar social capital necessary to attract industry. Other incentive and loan programs will favor small business, day-care centers and the Delta.

According to the Annual Manufacturing Supplement of *Arkansas Business*, tax incentives give the Arkansas economy a Razorback edge:

- Free Port Law -- no tax on goods in transit or finished goods destined for out-of-state sales
- No sales tax on manufacturing equipment, pollution control facilities, or raw materials
- No property tax on textile mills
- Corporate and sales tax exemptions in Enterprise Zones
- Sales and use tax exemptions for major plant expansions
- Corporate and sales tax exemptions for day care facilities

There is also financing available for municipal and county industrial revenue bonds, general obligation bonds, state loan/guarantee programs, and development finance corporations.

The median family income and per capita pre-tax income in Arkansas are approximately 80 percent of the national average (and rising). However, after adjusting for comparative living costs and taxes of all types, some of the seemingly affluent states slip toward the bottom of the list, according to two separate estimates of relative purchasing power. The average Arkansan then has an adjusted per capita

income higher than the citizens of eight Midwestern and Northeastern states: Rhode Island, Kentucky, North Dakota, Mississippi, South Dakota, Massachusetts, Vermont, New York, and Maine, respectively.

The Mid South has been an underdeveloped region in the past, but it is catching up; it has a better growth potential than any other region of the country. Future growth into the mid-south will probably come from the continued migration of manufacturing, and private-service industries to take advantage of our region's relatively lower wages, taxes, energy costs, land costs, and mild climate.

The national population is also expected to increase more rapidly in our region. Yes, like a developing country, the south has reached the "take-off" stage of its economic growth. In Arkansas, perhaps as in no other state, it is appropriate to observe that population growth and economic development have become one of those "Which came first--the chicken or the egg?" propositions. All newcomers do indeed arrive complete with multiple needs for housing, services, and retail establishments, etc.

Arkansas is one of 21 states which has passed the Right to Work Law. Among this nation's 50 states, and in the creation of new manufacturing jobs, non-agriculture jobs, and contract construction employment, the 21 states which ban compulsory unionism continue to outdistance the 29 states which do not have Right to Work Laws.





## **V. Capital Generation Treatment**

There are several economic development programs and policies which have spawned superb economic growth and progress in Arkansas since the mid-1980s. Michael O. Parker, Tax Specialist and Partner with the law firm of Davidson, Horne, and Hollingsworth has provided through their *Tax Advisory* the following excellent summary of the "big four" economic development inducement programs:

### **A. Arkansas Enterprise Zone Act of 1993 (Act 947 of 1993)**

- Refunds sales and use tax (state and local) on materials used in constructing project buildings and on all project machinery and equipment.
- Grants income tax credits of up to \$2,000 per net new employee.
- Requires endorsement resolution of city or county.
- Requires 25 net new employees for distribution centers; 50 for corporate headquarters; and 100 for office sector or trucking sector businesses. No new employee requirement for industries and certain R&D businesses.
- Not available if MIC credits (B below) are claimed on same project.

### **B. Manufacturer's Investment Sales and Use Tax Credit Act of 1985 (Act 529 of 1985)**

- Grants sales and use tax credit of 7% of total project cost.

- Credits may be used or carried over for up to seven years.
- Credit may be used to pay up to 50% of a taxpayer's total state sales or use tax liability for each reporting period.
- Requires application to AEDC not less than 30 days prior to start of construction.
- Requires continuous operation in Arkansas for at least two years prior to application.
- Requires project costing more than \$5 million.
- Application disqualifies applicant for Enterprise Zone benefits (A above) on same project.

C. Arkansas Economic Development Incentive Act of 1993 (Act 788 of 1993)

- Authorizes Department of Industrial Development to negotiate financial incentive plan.
- Plan may set aside up to 3.9% of annual payroll for new permanent employees (5% in areas of high unemployment).
- Incentive funds may be used for employee training, infrastructure, or other designated purposes.
- Term not to exceed 10 ½ years from date plan signed.
- Benefits begin 12 months after hiring requisite employees.
- Requires 50 new permanent employees for corporate headquarters; 100 for industries, office sector

businesses and distribution centers.

- Other tax incentive programs remain available.

D. Arkansas Economic Development Act of 1995 (Act 831 of 1995)

- Authorizes Department of Industrial Development to negotiate financial incentive plan.
- Plan may grant income tax credits not to exceed debt service (principal and interest) paid for project financing.
- Credit may be claimed for 70% to 100% of income tax liability depending on average hourly wage.
- Term not to exceed 10 years from date plan signed.
- Refunds sales and use tax (state and local) on materials used in constructing project buildings and on all project machinery and equipment.
- Requires endorsement resolution of city or county.
- Requires 100 new permanent employees for industries, corporate headquarters, office sector businesses and distribution centers.
- Requires project costing more than \$5 million.
- Benefits disqualify applicant from receiving benefits under any other tax incentive program for same project.





## **VI. Teamwork For The Future**

Continued economic and industrial growth is vital to the quality of life in our state and for the future of our children. Therefore, Entergy Corporation (formerly Arkansas Power and Light) announced ten years ago their program, "Teamwork Arkansas" -- a commitment to creating more jobs for the state. "Teamwork Arkansas" represents a coordinated private sector commitment to support public efforts through a plan to address specific goals and needs in the areas of industrial prospecting, community development and national advertising and public relations.

Administered through the Entergy Marketing Department, "Teamwork Arkansas" works in concert with the AEDC, the state and local chambers of commerce, and other groups dedicated to Arkansas' future. It incorporates the findings of in-depth research in recent studies, notably the 1986 report of the "Jobs For Arkansas' Future" committee, which provided with key guideposts in directing our economic development efforts.

During its first ten years, Entergy Arkansas accomplished the following:

- Invested \$20 million directly in Teamwork Arkansas programs, including grants to Arkansas communities to assist with improvements to industrial infrastructure and marketing and presentation of the communities to prospective businesses.

- Contributed \$18 million to education and community betterment efforts.
- Provided leadership training to more than 1,500 persons from 45 Arkansas cities and counties to prepare them and their communities to compete effectively.
- Conducted numerous foreign industrial trade missions involving representatives of regions and communities in the state.
- Assisted the state's Main Street programs to help communities preserve and promote vital downtown businesses.
- Helped ensure high quality power at competitive rates to assist communities in attracting large industrial prospects.

The summer of 1997 report of the newly reconstituted AEDC included this message from Governor Huckabee:

For forty years the Arkansas Industrial Development Commission (AIDC) has worked to improve our state's economic future. When the agency was established in 1955, it worked to attract new industrial plants. But that mission has broadened through the years.

Today the agency focuses on the development of more than just manufacturing business. It assists office sector companies in their location and expansion efforts and also guides communities in preparing themselves for economic development.

To reflect this broader focus, the agency has changed its name to the Arkansas Economic Development Commission. While that may be a subtle change, it much more accurately reflects the agency's mission and customers.

As governor, I am very proud not only of this expanded focus for AEDC, but also of the many accomplishments covered in this year's Progress Report. The state saw a significant increase in the new jobs and capital investment announced in 1996. We also launched implementation of the results of our targeted industry study, which I believe will further contribute to job growth.

And, for the first time in our history, we saluted our state's established industries to show them what an important role they play in our economic future. I invite you to review this report of AIDC's final year and AEDC's plans to continue the agency's great legacy.

A growing number of progressive communities were recertified recently by the AEDC as an Arkansas Community of Excellence (ACE). ACE helps communities become better prepared for economic opportunities and encourages communities to strive for outstanding commitments to economic development. Some of the site criteria needed to become an ACE city included the following:

- a minimum of 40 contiguous acres of usable land;
- utilities at the site or a cost estimate to run utilities to the site;
- a slope of less than 5 percent over the entire site;
- paved access or a cost estimate for it;
- environmental, soil and wetland analyses;
- aerial photographs and topographical and plat maps;
- industrial zoning already in place.

Locally, these area chambers of commerce consist of business and professional people who provide the ideas, the drive, the goals, and the voluntary services that work for a better Arkansas community for everyone. In my own AEC certified community, and in the 1990s, the AEDC has sponsored 23 "Quality First" programs. Over 400 Quality Management students have graduated, representing 60 companies and yielding \$15 million in savings to local businesses.

## **VII. Economic Development**

Economic progress is very important to all Arkansans. With it, our children don't have to relocate, our communities continue to grow, and our infrastructure can be upgraded. The AEDC is right on the money in reminding us that no federal or state government program can be effective in promoting economic progress without a tandem program of local civic development sparked by the enthusiastic support of community leaders.

It is these key players who are willing to do what is necessary to keep the area's economic condition at a level where businesses will risk their resources in the hope of making a profit. Everything else is just a means to that end.

In all of our Arkansas communities, the profitable operations of business are the source of all other benefits. Only by succeeding in this fundamental endeavor, can our Arkansas towns provide the jobs and produce the wealth to finance all the governmental, civic, educational, cultural and charitable needs that each of our communities is faced with every day.

These local chambers of commerce are catalysts -- common vehicles through which business and professional people work together for the corporate good of their communities. Accordingly, Arkansas' local chambers have increasingly been more progressive in developing master plans of goals to promote sound economic growth for business and agriculture, along with efforts to



improve the economic well-being and quality of life for all residents.

Simultaneously, area chambers of commerce in our Natural State have, with private sector encouragement, launched leadership institutes. These forward-looking institutes identify and motivate potential leaders; acquaint them with community needs, problems and opportunities; offer a forum of exchange of alternative methods for dealing with those needs, problems and opportunities; and challenge potential leaders with community involvement and decision-making.

"Economic Development" may be the most commonly discussed, but least understood, issue of this decade. As the AEDC has pointed out, we all want economic development. Without it, our children move away, our towns die, and roads deteriorate.

The first step in the economic development process begins with the local community. The AEDC is correct in reminding us that no federal or state government program, however well-meaning or well-planned, can be effective in economic development without the initial commitment and efforts of the local community to the creation and maintenance of jobs.

The Entergy Corporation is correct in noting that many factors enter into the fight for industry: Labor force (including skills of employees and the wages the employees will demand) ... Transportation ... Proximity to customers and raw materials ... A business climate that makes it easy to operate ...

Energy costs and ... Availability of existing "spec" buildings for prospects.

Neighboring states are redoubling their efforts in industrial recruitment. To meet that competition, Arkansas must keep the incentives to attract and retain industry: (1) The tax credit, (2) those enterprise zones, (3) continued infrastructure development, and (4) more quality management training.

Yes, economic development may begin with the local community, but it cannot end there.



## VIII. Taproots to the Land

Arkansas' location and climate, economic as well as natural, have combined to position us at the right place at the right time. Population growth rates have been above the norm for the sunbelt and the nation. Today, Arkansas counts manufacturing as a major economic factor, but there are others. Agriculture continues to exert a major positive influence on the state.

Although Arkansas has continued to move away from an agricultural-based economy, agriculture continues to play an integral part in the state's economy. In Arkansas, agribusiness is big business. Each year, Arkansas leads the nation in production and exportation of both rice and commercial broiler chickens. From cotton to soybeans, poultry to tomatoes, Arkansas is among the nation's top ten producers.

The right kind of soil and the right amount of moisture come together in the southeastern quadrant of the state to make it the nation's rice bowl. An estimated five percent to ten percent of each year's crop is barged down the Mississippi and thence to foreign markets. The opposite, northwest, corner of the state is the nation's poultry house. The majority of cash receipts from agriculture in Arkansas comes from livestock enterprises, while crops account for 43 percent.

Arkansas has been the number one broiler-producing state in the United States since 1971, producing more than 750 million birds each year. The poultry products and

processing industry in Arkansas employs more than 40,000 people. Scientific growing methods have cut the growing time nearly in half to help feed Americans whose per capita consumption of chicken is growing 50 percent faster than red meat.

The Natural State produces more than 40 percent of the rice grown in the United States, harvesting more than one million acres each year. Arkansas exports almost 45 percent of its rice crops to destinations around the world. The forest products industry also contributes to the state's economy. Timber growing, harvesting, management, transporting, and processing are major industries in Arkansas, accounting for approximately \$1.6 billion in value added by manufacturers. Timber growing, harvesting, management, transporting, and processing are major industries in Arkansas, accounting for more than 120,000 jobs.

Although there are big operations in agribusiness, the individual farmer still plays a key role. Literally thousands of Arkansas farmers grow commodities on contract for major companies; thus, avoiding the economic pressures that have forced most of their counterparts off the land they love.



## IX. Natural Resources

Arkansas is richly endowed with natural attributes--a climate of four distinct but temperate seasons, sparkling streams fed by springs and manmade lakes replenished by ample rainfall, considerable bauxite deposits, the only diamond mine in the nation, and more than 18 million acres of forest land prized by lumbermen and vacationers alike. The 48 state parks, three national forests, and multitudes of lakes, rivers, and streams contribute to Arkansas being known as "The Natural State."

The most recent Annual Manufacturing Supplement to *Arkansas Business* cites our natural resources as follows:

Water -- Arkansas has over 283,000 hectares (699,293 acres) of surface water; over 800 billion liters of high quality ground water are contained in aquifers capable of yielding over 2,000 liters per minute. There is a large network of navigable rivers with ports on the Mississippi, Arkansas and Ouachita Rivers.

Timber--Forests cover 7.16 million hectares (17.69 million acres), or more than half of the state. Pine woods make up 42 percent and the rest is mixed hardwoods, mostly oak. Timber growing, harvesting, management, transporting and processing are major industries in Arkansas.

Fossil fuel activity tracks somewhat with the Southwest:

Crude Oil

Total production 8 million barrels  
(1990)

Reserves 60 million barrels

Natural Gas

Production 164 billion cubic  
feet (1990)

Reserves 1,731 billion cubic  
feet (1990)

Coal and Lignite

Reserves 0.4 billion short  
tons (1990)

Other minerals in commercial production are as follows:

Bauxite (#1 in nation), bromine (#1 in world), cement rock, clay, gypsum, limestone, novaculite (only producer in nation), quartz crystals (#1 in nation), serpentine rock, shale, silica sand, syenite, tripoli, dimension stone, crushed stone, sand, gravel and slate.

According to *Arkansas Business*, more than 11 million tons of commodities -- including sand and gravel, grain, steel products and forest products are shipped on the Arkansas River each year. About 750,000 tons of commodities moved on the White River and another 250,000-300,000 tons traveled on the Ouachita River. It costs less than one cent to ship a ton of materials one mile by barge. Shipping a ton by rail costs 2.5 cents a mile; by truck the cost is about five cents a mile.

## **X. Topography and Climate**

Arkansas adjoins the states of Texas, Louisiana, Mississippi, Tennessee, Missouri and Oklahoma with the Mississippi River forming the state's eastern border. It is located in the same latitude as Osaka, Japan and North Africa.

Arkansas is a testimonial that man and nature can live in harmony and even improve upon one another's handiwork. The hill country, with its attraction to the tourist, artist, sportsman, and vacationer, encompasses roughly half of the state. North of the Arkansas River are the Ozark and Boston Mountains, believed to be among the nation's oldest. Every fall, these northern hills burst into spectacular shades of autumn.

To the south are the pine-covered Ouachita Mountains. Petit Jean Mountain sports a grand 75-foot waterfall. Trout fishing on the Little Red River and canoeing down the white waters of the Spring and Buffalo Rivers bring great pleasure. Many a sportsman's ideas of paradise is achieved by Arkansas being near the top in national rankings for hunting of duck, quail and deer.

In the foothills of Arkansas' Ozarks stands Greer's Ferry Dam. Behind that structure, dedicated in October 1963 by the late President Kennedy, glistens one of the foremost recreational areas in the middle United States, Greer's Ferry Lake. The paved access roads lead to the numerous parks which include drinking water, toilet facilities, boat launching ramps, parking areas, fireplaces, trash containers, tent and

trailer spaces, charcoal grills, and picnic tables for the general convenience of everyone. There are also public boat docks which provide boat and motor rental services, fuel, food, and other boating supplies and services.

Entertainment, culture, and community activities are alive and well in Arkansas. From opera to bluegrass to nationally ranked athletic teams, from Ozark native art festivals to elegant, candlelight dining, there is plenty to entertain and enlighten Arkansans the year around.

The Arkansas climate is classified as a humid sub-tropical climate, characterized by relatively mild temperatures. Rainfall is usually abundant throughout the year, although deficiencies or excesses are especially common during the summer months. The average annual rainfall is 4.31 inches per month. Most precipitation is frontal in origin, occurring along the zone or "front" where two unlike air masses meet. Winters are usually short and mild, but have cold periods of below freezing of a few days' duration. The area has an average frost-free growing season of about 215 days.

Arkansas has an average daily maximum temperature of 73 degrees; the average daily minimum temperature is 52 degrees. The average percentage of normal humidity (mean daily noontime) is 57 percent. There are approximately 75 days when a maximum temperature is reached at 90+ degrees. Arkansas has approximately 45 days when the minimum temperature is 32 degrees or lower.

## **XI. Furthering Our Education**

The need for continuing education and training throughout one's lifetime may be becoming a necessity. Management consultant, Peter Drucker, put it this way:

By the end of the century, the one occupation career may be history. The rapid pace of technological advance, with its unpredictable twists and turns, threatens almost every skill and occupation with obsolescence. Retraining and re-employing workers will assume new importance, and the pace of economic development will depend in large measure on how quickly workforces can be redeployed. Efficient redeployment will require large investments in human capital. Entrepreneurs also need to acquire the skills required to set up and manage a new enterprise. Yet at all levels, from first grade to post-graduate study, our capacity to make these needed investments is being questioned.

In its strategic plan, entitled Designing Arkansas: The State of the Future, the Commission for Arkansas' Future superbly stated what should be a commitment to excellence in education: "Arkansas will have a public life-long education and employment training system with flexibility to assure competitiveness in the national and global economy." The Designing Arkansas report established its priority goal as "Strengthen Arkansas' educational system, pre-school



through higher education, to a position of national excellence."

The Commission for Arkansas' Future further identified the following issues for possible further consideration regarding education and training programs in Arkansas:

- Aggressively improve and upgrade the state's educational standards;
- Provide for more management flexibility in both education institutions and the local school community;
- Expand and strengthen early childhood education programs and opportunities for parental participation;
- Improve the literacy rate for Arkansas adults through such efforts as expanding adult education programs;
- Provide entrepreneurial education programs;
- All programs should be assessed and held accountable;
- Educate Arkansas about the value of education;
- Consider funding individuals rather than institutions;

- Review education and labor regulations with the intent to revise, streamline or eliminate those regulations that restrict or hinder opportunities for education and training;
- Improve the collaborative efforts between educational and other organizations having an educational or training function or interest;
- Strengthen the educational governance capacity and aggressively continue education reform;
- Allow the governing bodies and agencies the authority to target resources more efficiently and to concentrate more on setting overall statewide policy and standards;
- Allow separate districts or institutions the flexibility to develop programs and methodologies to best accomplish its identified goals based on the established statewide policy and standards;
- Encourage competition while at the same time discouraging unnecessary duplication.

Some years ago, United Technologies ran the following "PLEDGE" in the Wall Street Journal:

1. I now realize that the greatest power in the world is the power of knowledge.
2. I want to be smart. Dumb, misinformed people go through life missing so many rewards that could be theirs.
3. I will learn my basic skills and be expert in them.
4. I will read books on the subjects that interest me most. But I will also read books and articles on other subjects to broaden my awareness of what is happening in the world around me.
5. I will discuss at dinner time what I have learned or questioned at school today.
6. I will study the ideas and dreams of our history to see how they can help me today.
7. I will set aside some time each day to think about my future, to discuss it with people I respect and to work on accumulating the knowledge that can guarantee that future.

8. I pledge this to those who love me and are trying to help me succeed. More important, I pledge it to myself.

Student signature \_\_\_\_\_

Teacher (I'll help you) \_\_\_\_\_

Parent/Guardian (endorsed with great love) \_\_\_\_\_



## **XII. Infrastructure**

Research by the Commission for Arkansas' Future also indicates that there is currently inadequate data available on the information industry in Arkansas from which to make specific assessments and recommendations. However, the information age is indeed here, characterized by the increased usage of computers, fax machines, modems and other forms of high speed data transmission.

In order for Arkansas to stay competitive in today's global economy, Arkansans must become proficient in all forms of technology. We must gain a technological advantage, says the Commission, or at the very least, not be at a disadvantage with competing economies.

The Commission for Arkansas' Future identified the following issues for possible further consideration regarding infostructure:

- Allowing communications companies regulated by the state to retain a portion of their earnings to be invested in upgrading their infostructure systems; i.e., upgrade to fiber optics, more advanced computer technology utilizations, etc.
- Upgrading the state government's infostructure capabilities in order to maximize efficiency, productivity, and cost effectiveness by (1) encouraging the purchase and use of newer computers and related high-



technology equipment in state government; (2) providing adequate employee support and training; and (3) encouraging a state management information system that allows cross-communication between agencies and their programs to better serve the citizens of Arkansas.

In 1995, the hot issue before Arkansas voters and taxpayers was the former governor's proposed \$3.5 billion highway construction program proposal. By far the largest bond issue in Arkansas history, he viewed it as a requisite for improved safety and continued economic progress for Arkansans. To fund the bond issue, there would have been a one-half cent increase in the state sales tax, a 6.5 percent excise tax on the wholesale price of gasoline, and an increase of five cents per gallon on diesel fuel taxes.

He estimated that the highway upgrade program, that is, completing it in a decade through a bond issue instead of paying for it as we go over the next 30 years, could create nearly 200,000 jobs and add an additional \$11 billion in commercial activity within the boundaries of Arkansas.

Aside from the obvious savings in future construction costs, a coalition of citizens who were concerned about the downside of the proposal made these points: (1) There are exceptions to the rule that good highways are a prerequisite to economic development (northwest Arkansas for example); (2) high taxes could put our state at a competitive disadvantage on the economic development

playing field (California would be an example); (3) highway construction would be competing with public education for sales tax dollars (a first for Arkansas); and (4) the issue is playing as a "which came first -- the chicken or the egg?" puzzle. That is, does upgraded infrastructure precede economic progress or does economic progress pave the way for upgraded infrastructure?

The proposal was defeated by the voters. There is another option that is grounded in incentive-based economics, and it is posed here as a rhetorical question to which Arkansas taxpayers and voters can individually and privately respond: Is it not low tax rates that lead to greater long-run economic prosperity wherever it occurs? And if so, wouldn't that greater economic prosperity then provide a broader base for real time funding of infrastructure upgrades?

Regarding all forms of infrastructure, as well as to maximize the effectiveness of public capital expenditures, improve economic opportunity, and enhance the quality of life in Arkansas, the Commission for Arkansas' Future has identified issues for possible further consideration:

First, consider the need for increasing public planning, spending and maintenance on public infrastructure, including the following: (1) highways, roads and bridges; (2) water supply, treatment and distribution systems; (3) wastewater collection and treatment systems; (4) air transportation systems; (5) waterway transportation systems; and industrial parks, including water port parks.

Second, consider encouraging the following at both the state and local government levels: (1) the improvement of long-term planning and the use of capital improvement plans/programs; (2) improved maintenance of existing facilities; (3) improved management; and (4) increased reliance on user fees where applicable.

### **XIII. Tough Questions**

Continued economic and industrial growth is vital to the quality of life in our state and for the future of our children. This monograph is the most recent and viable venture to provide a coordinated private sector commitment to support public efforts through a plan to address specific goals and needs and concerns expressed by Arkansas. I hope to provide us with key guideposts in directing our economic development efforts.

The composite Arkansas appreciates the opportunity to have a good job and to keep it. The Arkansas worker wants to help his company grow, and quality-consciousness is a way of life. According to companies with multi-state operations, the Arkansas will have less absenteeism and more productivity than his counterparts almost anywhere else. Let's build on these good qualities.

Opportunities abound for us to upgrade our economic lives in the Natural State. Taking the lead from the Commission for Arkansas' Future, and others, the following questions are posed as a basis for possible addition future research:

- How can we further encourage and assist entrepreneurs and small business people in creating, developing, and expanding their businesses?
- How can we strengthen property rights from arbitrary public sector restrictions?

- How can we identify and remove all unreasonable barriers to entrepreneurship?
- How can we continue to diversify our economic base?
- How can we increase the employment rate with emphasis on those areas of the state which have traditionally experienced high rates of unemployment?
- How can we match job training for the current and future work force with skills being sought by business and industry?
- How can we increase the investment in and improve our state's infrastructure such as water, sewer, waste management, and transportation systems, and our infostructure such as telecommunications, electronic information transfers and computer networks?
- How can we recruit and support businesses and industries which are environmentally responsible?
- How can we increase access to goods, human services and jobs in rural Arkansas?
- How can we address the changing needs of large corporate farmers and small family farmers?
- How can we link heightened entrepreneurship to expanding our export markets?

- How can we continue to develop a competitive edge and expand programs that promote global marketing of Arkansas goods and services?
- How can we further diversify Arkansas' economic base to promote the development, expansion and recruitment of industries and jobs, including the retirement and tourism industries?
- How can we be sure to obtain good government at a reasonable cost?
- How can we further encourage and assist entrepreneurs and small business people in creating, developing, and expanding their businesses?
- How can we strengthen property rights from arbitrary public sector restrictions?
- How can we identify and remove all unreasonable barriers to entrepreneurship?
- How can we continue to diversity our economic base?
- How can we increase the employment rate with emphasis on those areas of the state which have traditionally experienced high rates of unemployment?





## **XIV. Back To Our Future**

When it was in operation, the Commission for Arkansas' Future established a priority goal for economic vitality by diversifying Arkansas' economic base to promote the development, expansion and recruitment of industries and jobs, including the retirement and tourism industries. Their recommended strategies were these:

1. Develop programs to train the private sector and local leaders in the skills and information needed to plan and manage sophisticated economic development efforts;
2. Develop a long-term plan for infrastructure investments, assign priorities to the most needed projects, and identify innovative funding sources;
3. Stimulate business and industrial lending among the state's financial institutions, including a thorough review of the impact of the usury ceiling; and
4. Strengthen job training programs to match the rising demands of employers.

The Arkansas State Chamber of Commerce and the Associated Industries of Arkansas (ASCC/AIA) have launched "Project 2000," a strategic plan with a vision for a good business climate in Arkansas:

Overall. Arkansas will be competitive nationally and internationally with new and expanding industry. Strong business leaders will work cooperatively with government in maximizing the state's resources to produce high quality jobs. Research and development companies will help keep Arkansas competitive.

Workforce and Jobs. Arkansas will have a broad base of educated citizens constituting a readily available quality work force. Training programs and the state's educational system will help ensure that every employable Arkansan will have a job at or above the national pay level. A high quality work force will foster growth of "quality" jobs.

Business Climate. A free enterprise spirit will pervade Arkansas. The state will promote business development with pro-business attitudes and policies. The legislative, executive and judicial branches of government will work with business. Public policies will protect the environment without over-regulating business. Government will be committed to the economic well being of Arkansans and will allow business the freedom to operate with a minimum of red tape. Government regulations, tax policies and environmental enforcement will be fairly administered creating a level playing field for business and industry.

Infrastructure. Arkansas will have a sound infrastructure with good transportation and utility systems to support economic development.

The strategic plan, as spelled out in the *Arkansas Newsletter*, positions the ASCC/AIA as the leading advocates for business and industry in Arkansas. The organizations would serve as a high profile leader of the business community respecting and reflecting the diversity of Arkansas' business and public policy leadership. The ASCC/AIA would be perceived as the organization to lead the business community into the twenty-first century with a strong and unified voice for business and industry on consensus issues.

In the spring of 1995, the Natural State joined 35 other states in launching a conservative, non-profit, non-partisan, public policy research, information, and advocacy organization. The shift of focus away from Washington for solutions to public policy and social problems began during the Federalist-leaning Reagan years. By persevering with principle rather than politics, the state-based research organizations have gained credibility.

The new Arkansas Policy Foundation (APF) has now joined the other state-organizations dedicated to developing, researching, distributing, promoting, and educating at the state and local level for a better tomorrow. Free market ideas are being applied at APF; innovative solutions will then be delivered to state and local media outlets, presented to local civic

groups, and distributed through books and position papers to other grassroots organizations.

Because ideas do have consequences, the APF Board commissioned an Opinion Survey whose coverage blanketed the Arkansas business and civic community. The responses of these leading opinion-shapers should shed considerable light on their perceptions about a number of contemporary areas of interest. The Murphy Commission resulted from this process.

The Murphy Commission is an initiative of the Arkansas Policy Foundation, a Little Rock-based conservative think tank formed by Arkansas business leaders. The Commission includes the heads of some of the state's most successful companies. Other members include business people, community leaders and lawmakers. It will cite ways to make government more efficient and accountable. The Murphy Commission has initially recommended that government adhere to five basic functions: provide public safety, preserve the law and a system of justice, help those who can't help themselves, provide an educational opportunity for all, and take care of public property and the environment.

We must indeed do more with all resources at our disposal. We are past the point when it is adequate to sell ourselves in the competitive marketplace as "nice place to live, work, and enjoy life," for our neighboring states are also claiming that. But it is a good start, for sure.

## **THE BOTTOM LINE -- Something for Everyone**

Recently, *U.S. News and World Report* reported that their survey ranked the Arkansas economy among the "Ten Best Off," in fact, in Third Place, among the 50 states. And so it was, that when this writer moved to Arkansas from the West Coast 27 years ago, a local realtor provided this sage advice, "Once you become an Arkansan, you can never leave." Now I know; count me in for the duration.

Arkansas and America have come a long way together; much is yet to be accomplished. Fifty years ago, incomes in the South were 40 percent of the national average. Today, southern incomes are 80 percent of the U.S. average (and rising). Sixty-six percent of us own homes (both the U.S. average and the Arkansas average), compared to 44 percent just 50 years ago. Living standards have improved greatly. In the mid-1940s, some 33 percent of the nation's homes had no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood.

The bottom line, or end of the matter, is that life is good in Arkansas. It will get better as new jobs create new needs, which in turn will create more new jobs. Such are the makings of real opportunities. Statewide and locally, chambers of commerce consist of business and professional people who provide the ideas, the drive, the goals, and the voluntary services that work for a better community for everyone.



Business is good in Arkansas. It will get better as new capital-friendly policies create new jobs. Such are the makings of real opportunities. So, there is plenty to do -- something for each and every one of us. Then, the coming generations, who will be the true judges of what we do today, will find us worthy of our tasks. We have a Razorback edge; let's keep it and sharpen it, too.

## ACKNOWLEDGMENTS

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This monograph also draws on recent statistical reports and econometric abstracts from numerous planning commissions and development agencies. Contained herein is also a summary of findings and suggestions on areas of reforms and private sector initiatives that could bring fresh approaches and thereby allow us to continue to call this the "Arkansas Decade." The reader is also invited to consult the Reference section for additional information.

Credit has been given to various sources as they were available. The AEDC is the best one-stop-shopping source of further comprehensive updates via their position papers and monographs placed in the public domain on the topics herein. Hopefully the References section will also give due credit and enable those who desire to do further study to consult those sources.

Every effort has been made to include only reliable information. The author would

welcome knowing about any possible omissions or errors. If any such acknowledgments have been inadvertently omitted, the author would appreciate receiving information so that proper credit may be given in any future printings.

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The **ENTREPRENEUR** is a quarterly journal and monograph addressing contemporary economic issues from a moral perspective. One may not agree with every word printed in the **ENTREPRENEUR** series, nor should feel he needs to do so. It is hoped that the reader will think about the points laid out in the publication, and then decide for himself.

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Dr. Don Diffine is currently Professor of Economics at Harding University in Searcy, Arkansas, and Director of the Belden Center for Private Enterprise Education. Senior Research Associate of Harding's American Studies Institute, Dr. Diffine is listed in the Heritage Foundation's Guide to Public Policy Experts. He has seven books and 20 articles and monographs in print.

The recipient of the \$7,500 Freedoms Foundation Principle Award for Excellence in Private Enterprise Education, Dr. Diffine has received 16 additional Freedoms Foundation awards in the categories of Non-profit Publications, Economic Education, Public Affairs-Advertising, Public Address, and Published Works. He is the faculty winner of a \$1,000 First Place prize in a national essay contest judged by Nobel Economist Milton Friedman.

In 1995, he received the "Champion of Enterprise" award and became the first inductee into the National Students In Free Enterprise Hall of Fame in Kansas City. The First Annual Distinguished Scholar Award was also presented in 1988 to Dr. Diffine in Cleveland, Ohio, by the Association of Private Enterprise Education. Dr. Diffine has provided Congressional testimony on business problems, economic impact statements, and inflation-recession dilemmas.

Dr. Diffine is married to the former Dion Hillman of Kailua, Hawaii. Dion is a math teacher in the Searcy public schools. The Diffines have two children: David, 27, who is a medical doctor; and Danielle, 25, who is an accountant.